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C O N F I D E N T I A L MADRID 001761

SIPDIS

DEPARTMENT PASS TO EUR/WE

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SUBJECT: SPAIN: RESPONSE TO BOLIVIA HYDROCARBON LEGISLATION

REF: STATE 83302

Classified By: Political Counselor Kathy Fitzpatrick for reasons 1.4(B) and (D)

1.(C) On May 9, Poloff delivered reftel points on Bolivia's hydrocarbons legislation to Juan Carlos Sanchez, Subdirector General of the Andean Community at the Spanish MFA. Sanchez expressed his government's concern about the situation in Bolivia and stated that the GOS has been actively involved in finding a resolution to the problems there, to include dispatching a special envoy. However, Sanchez said that the GOS would not issue a public statement in regard to the hydrocarbon legislation, as they didn't want to be seen as interfering in Bolivia's internal politics. Spain is promoting a joint EU declaration and hoped to gain consensus among the member states for a statement calling on the GOB to observe the rule of law. Sanchez cautioned that Spain is balancing its economic interests with its interest in maintaining a stable Bolivian government that respects democracy and human rights. According to Sanchez, the GOS believes that the best option is convincing the Bolivian public that the legislation is bad for the country and allowing the Bolivian legislature to repeal the law. In Spain's view, this would be preferable to Mesa being seen as capitulating to foreign pressure.

2.(C) According to Sanchez, FM Moratinos spoke to President Mesa about this legislation during a telephone conversation on May 8. During the conversation, Mesa reportedly stated that he was politically unable to veto the legislation because he didn't have enough Congressional support to prevent the legislature from overriding his veto. Mesa reportedly said that he doesn't want to appear weak politically, as several opposition groups have banded together and were trying to remove him from office. Sanchez said that keeping Mesa in office and ensuring continued respect for the Bolivian democratic institutions was a priority for Spain.

3.(C) Sanchez conveyed to Poloff that Spain's main economic interest in Bolivia, the petroleum company Repsol, has vowed to pull out of the country should the legislation take effect. Sanchez quoted Repsol President Antonio Brufau Niubo as stating bluntly that "Bolivia is getting 18 percent now. If they want 50 percent, it will be 50 percent of nothing".

COMMENTS

3.(C) The GOS is very concerned about this issue, enough so that they dispatched former Deputy Foreign Minister, Juan Costa, as a special envoy. Spain believes that Repsol's potential withdrawal would be a blow to the Bolivian economy and that the threat may provide Spain with a valuable bargaining chip in negotiations with the government. Spain is concerned about the economic effects of this legislation, but appears to be more concerned about political stability. As a result, the GOS is not likely to take a strong public stand on this issue but will likely continue to diligently work behind the scenes in negotiations with Bolivia and within the EU.

MANZANARES